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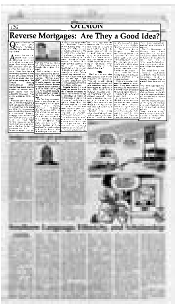

Reverse Mortgages: Are They a Good Idea?

Question: I'm hearing a lot lately about "reverse" mortgages. What are they, and are they a good idea?

Answer: I'm not surprised that you're hearing more and more about reverse mortgages. Even though they've been around in one form or another for more than 15 years, there have been a tremendous number of news stories about them recently, and more people than ever before are using them. The Federal Housing Administration (FHA) reported last month that the number of reverse mortgages issued last year jumped by 77 percent – from 43,131 in 2005 to 76,351 in 2006.

What are they? In a nutshell, a reverse mortgage is a cash loan against the equity in a residential home that's available for homeowners age 62 and older. But unlike a conventional "forward" mortgage such as the one most folks use to purchase a house, you don't make monthly payments on the money borrowed or the interest on the loan. In fact, no payments are due on a reverse mortgage until the borrower either dies, moves out of the home, or sells it. Sounds like a great deal, right?

Well, it can be, but as you might have guessed, answering the second half of that question – "Are they a good idea?" – is more complicated. It really depends on your individual situation. Reverse mortgages aren't inherently "good" or "bad," they're just tools for financial planning, and it's important to match the right tool to the right task.

The first thing you need to know is that there are two basic types of reverse mortgages. Home Equity Conversion Mortgages (HECMs) are insured by the FHA and are far and away the most common type. Currently, about 95 percent of all reverse mortgages written are HECMs. You might also have heard of reverse mortgage products developed by private lenders such as the Fannie Mae "HomeKeeper" loan and the "Cash Account" sponsored by the Financial Freedom Senior Funding Corp. One thing that makes reverse mortgages attractive is the fact that, unlike conventional mortgages or a home equity loans, qualifying for one doesn't depend on income, because borrowers don't make monthly payments on the loan balance. Qualifying, and the amount of money you can borrow, depends on other factors instead: the estimated market value of your home, your age (or the age of the youngest homeowner such as a spouse) and the interest rate offered on the loan.

Tapping the equity in your home can provide you with the finances necessary to stay in your home as you age by providing for repairs or modifications or paying for in-home services to help you remain independent, but obviously, meeting that need has to be balanced with other long-term care plans. For instance: Do you have long-term care insurance that will pay the costs if you have to leave your home and go into assisted living or a nursing home? If not, how will you pay for that? It's important to understand that the loan amount plus all accrued interest and fees will have to be paid when the house is sold. That's money that won't be available to pay for other needs or to be passed down to loved ones. For people who are interested in keeping a property "in the family," that's an important consideration, as heirs will be responsible for repaying the loan balance if they want to keep the home instead of selling it.

TIPS:

The loan costs and other fees associated with reverse mortgages are substantial. They can include closing costs (such as appraisals and title searches), origination fees (capped at 2 percent of your home value), and a mortgage insurance premium. Counseling from a government-approved third party is mandated for everyone who applies for an HECM loan, but your lender should also be willing to go over costs and answer all of your questions.

Beware of any lender who's pressuring you to sign up for a particular loan program or is unwilling to take the time necessary to make sure that you understand ALL the options available to you. The National Reverse Mortgage Lenders Association (NRMLA) is an organization that sets best practice guidelines for people in the reverse loan industry. They strongly recommend getting independent advice from someone who isn't going to earn a fee or commission on an annuity or other investment before making a decision to finance such a purchase with a reverse mortgage.

Think of a reverse mortgage like making an investment. Doing some research and getting information from a trusted source are critical for making a good decision.

Following are some good places to start:

As mentioned above, the NRLMA is active in setting standards for best practices among their members. They're also a good source of information for consumers considering a reverse mort-

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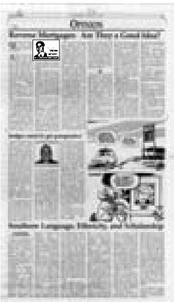

gage who want to learn more. Check out their consumer education web site at "http://www.reversemortgage.org" www.reversemortgage.org.

The U.S. Department of Housing and Urban Development also has good information about reverse mortgages for consumers on their web site at "http://www.hud.gov/buying/rvrsmort.cfm" www.hud.gov/buying/rvrsmort.cfm.

The AARP has a very informative publication called "Home Made Money A Consumer's Guide to Reverse Mortgages" that is available from their web site at "http://www.aarp.org/money/revmort/" www.aarp.org/money/revmort/ (click on "Basics" on the left side of the page) or call them at 1-800-209-8085 to order a free copy by mail.

Also, the National Council on the Aging (NCOA) has some useful booklets available for download on their website at "http://www.ncoa.org" www.ncoa.org (click on "publications" in the bar menu near the top of the page).